

FRIDAY, OCTOBER 16, 2026

2026-10-16

Cum RE

REAL ESTATE

Homeownership drifts further out of reach as mortgage rates climb

Translate



A townhouse under construction in Portland, Ore., on July 2. As mortgage rates rise, home builders will have to weigh the cost of construction with the likelihood that their homes will find ready buyers. RUTH FREMSON — THE NEW YORK TIMES

By Sydney Ember
The New York Times

In late February, would-be homebuyers and sellers rejoiced.

For the first time in more than three years, the average interest on a 30-year fixed-rate mortgage had dropped below 6%. Finally, it seemed, the languid housing market might perk up.

1

That glimmer of hope has flamed out.

Mortgage rates have rocketed back up, hovering at 7.4% as of Thursday. And it appears unlikely that rates will decline significantly anytime soon. Mortgage rates are tied to the yield on the 10-year Treasury note, which has soared because of concerns about persistent inflation, ballooning national debt and optimism around growth driven by artificial intelligence.

"Unless you get a recession, it's really hard to bring down rates," said Josh Hirt, an economist at Vanguard.

The surge in mortgage rates could further depress housing activity and plunge the country deeper into a housing crisis. The United States had 3.7 million fewer homes than it needed in late 2024, according to Freddie Mac.

Homeowners who secured ultra-low mortgages during the pandemic, when borrowing costs plummeted, will be less willing to move, limiting already sluggish sales. Prospective buyers might instead live with their parents or remain renters, pushing up rents. Builders could be more reluctant to invest in construction, exacerbating a national housing shortage.

The era of rock-bottom mortgage rates may be over, but higher rates are historically more common. During the 1980s, the average interest on a 30-year fixed-rate mortgage surpassed 18%. The difference now is that home prices are sky-high as well, a combination that is putting homebuying out of reach for many Americans, especially first-time purchasers.

Alex LeForestier and his wife started thinking seriously about buying a house last month. They were contemplating moving from Stockton, Calif., to nearby Sacramento and wanted to see what kind of mortgage they could get.

After speaking with a loan officer and perusing home prices in the area, they concluded their monthly payment would far exceed the \$2,400 they paid in rent for their 2-bedroom, one-bath home.

"It's really hard to imagine buying a house during this period of time," said LeForestier, 27, who works at a local university.

"The interest rates really scared us," he added.

Owning a home is as unaffordable as it was in the years before the financial crisis, according to the Federal Reserve Bank of Atlanta's homeownership affordability monitor, which takes into account the median household income and the median home price.

The result is that more people could remain in the rental market, said Daryl Fairweather, the chief economist at Redfin, an online real estate brokerage. An increase in the pool of renters, combined with slower construction of apartment buildings, could push up rents.

Rents have risen modestly in recent years but they could start to accelerate in a year or two, Fairweather said.

Rental housing costs increased 0.2% in September and 2.8% over the year, according to the most recent consumer price index report.

"Rents have been stable because there was all this new construction of apartments during the pandemic that added to inventory," she said. "But that's over, and that's going to be slowing down as more people go to the rental market."

Higher rents could lift overall inflation, which could be a challenge for the Federal Reserve as it tries to tamp down persistent price increases. Another way higher mortgage rates could dampen housing is by curtailing the housing supply. The homebuilding sector has been languishing for years because of labor shortages, rising material prices brought on by supply chain trouble and tariffs, regulatory hurdles and a lack of land.

As mortgage rates rise, homebuilders will have to weigh the cost of construction with the likelihood that their homes will find ready buyers. Many homebuilders have had to offer concessions to entice potential homeowners,

including price cuts, which decrease their profit. Builders are also facing higher borrowing costs, making financing their projects more expensive.

The National Association of Home Builders forecasts that single-family homebuilding will decline by 4% this year and another 3% next year. Multifamily construction will also fall.

"We're not talking about the bottom falling out," said Robert Dietz, the trade group's chief economist. But, he added, "it's a hard slog."

Christian Albright, a project manager at Titan Design Build, a homebuilder in the Denver area that replaces derelict houses and structures with new homes, said higher mortgage rates have changed the company's calculations.

In addition to reducing prices, it is advertising its duplexes, triplexes and townhouses before they are finished in an attempt to sell them quickly and avoid paying carrying costs such as heating and electric bills.

"Interest rates really are the determining factor of how quickly sales move," he said.

Although the company has not reined in its building, Albright said rising rates could limit its property acquisitions.

A slowdown in building raises the possibility that there will not be enough houses later if mortgage rates fall, even slightly, and buyers rush back into the housing market. That could drive up housing prices and make it even harder to buy a home.

Earlier this year, Congress passed a bill that aims to make it easier and cheaper for developers to build houses. The measure, which became law in July, could make housing more affordable in the long term.

Fed officials will be watching how much the housing market and homebuilding slow in response to higher rates.

Housing, while highly sensitive to interest rates, may not have much room to slacken given its already slow pace. That could make it harder for the Fed to bring inflation back to its 2% target. The Fed, which increased rates by a quarter of a percentage point last month, is expected to raise rates at least once more in the coming months.

One question is whether sellers will reduce prices to woo buyers while rates are high, which could improve the number of sales. Home prices nationally were up 1.9% in July from the year earlier, slightly faster than the previous month, according to a widely followed index from S&P.

Some research suggests that home prices actually rise during periods of high interest rates because they are correlated with a stronger economy and higher inflation.

"Higher rates don't necessarily mean home prices fall," said Laurie Goodman, a fellow at the Urban Institute, a nonprofit research group.

Hirt, the Vanguard economist, said the housing market has been less affected by interest rate hikes because the housing shortage prevents prices from falling considerably. After the Fed started raising interest rates in 2022 in response to skyrocketing inflation, he noted, housing prices did not drop as much as they might have because demand for homes outweighed supply.

As a result, he said, the housing market should only marginally worsen as long as interest rates do not climb much higher.

"Maybe it doesn't weaken a lot more," he said, "but it certainly would be somewhat weaker tomorrow than it is today."

